

## The Tale of the Tape

### How Does Your 3PL Measure Up?

**While figures from the Chartered Institute of Logistics and Transport (CILT) show that businesses are getting better service from their third party logistics (3PL) providers, not all companies know how to measure performance effectively. Bob Gill, partner at the specialist supply chain consultancy Total Logistics, provides businesses with a guide on how to assess the performance of their current provider.**

“While most businesses resist the temptation to buy their transport services as a commodity, not all spend enough effort and time when it comes to procuring and measuring 3PL performance. Whilst a focus on price is understandable and desirable, consideration of ‘softer’ factors, such as the quality of service, the cultural fit between the businesses and the 3PL’s service ethos, should all be central to the engagement process.

“Sometimes the choice of 3PL is relegated to a purely paper- or IT-based exercise, where cost is the prime factor. What needs to be considered is the fact that the 3PL delivering goods to your customers effectively becomes your brand ‘ambassador’, which has the power to build or destroy your company’s reputation. In many ways your choice of 3PL will have a big influence on your customers’ perception of your business. Most 3PLs in the UK provide world-class levels of service, but it is important to invest time to ensure you are getting the service that best suits your ethos and your pocket!

“Before outlining the six key areas where performance measurement of 3PLs counts, it is important to understand two underlying principles concerning price and value. Firstly, as a buyer of logistics services, you need to understand and agree what is a fair price. Taking the combative, ‘minimise cost’, approach to negotiation will inevitably result in your business securing the services of the cheapest or most desperate logistics provider. Secondly, you need to make an assessment of the value you want to generate for this cost.

Companies that have realistic expectations about what they will get from a 3PL for their money are more likely to achieve a long-term value for money partnership. It’s also a good idea to have a clear

idea about what value you are expecting the 3PL to deliver. Do you need excellent door to door delivery? Unrivalled cross border logistics or uninterrupted supply on certain product lines? The more you understand about where you are looking for the 3PL to bring new capabilities, the better.

Given these two underlying principles, what are the other key areas where managers can assess the performance of their third party logistics provider?

### **Delivery service performance**

The number of on-time, in-full deliveries is an obvious and key measure for your 3PL. Used as an industry standard, this yardstick gives you a simple gauge on the performance of your logistics provider, which in most markets should be above 98 per cent. One word of caution though, don't always rely on your 3PL's word for it when it comes to performance measurement; ensure the customer signs and dates receipts; don't be afraid to call the customer directly to check on service levels.

### **Return of proof of deliveries**

Obtaining proof of delivery is vital for confirmation that the customer has the goods and it can also help in assessing a 3PL's back office processes. Monitoring this relatively simple audit process provides insights into the attention to detail, network-wide performance and a 3PL's ability to deliver on actions that are not mission critical. Additionally it can be used to focus greater attention of poorly performing depots or carriers.

### **Real time reporting**

Knowing where goods are at any one time is an important part of the reporting process that good 3PLs will provide and helps businesses to manage their own supply chains and inventories effectively. Equally as important is the ability to exception report and warn customers of any deliveries that may be late. A prior warning enables you as the supplier to be proactive and manage the situation rather than dealing with a letter of complaint.

### **Continuous improvement**

Can you see the regular steps your 3PL is taking to improve its service and how these make life easier or cheaper for you? Typical areas for continuous improvement include cost savings, environmental initiatives (ie using tear-drop trailers) and service improvement. Are they actually moving the service forward on a week by week basis? Without a formal continuous improvement plan

in place, this is unlikely to happen. Continuous improvement needs to be as much a part of the 3PL's DNA as it is in your organisation.

### **Ongoing management**

Have you jointly set up relevant and workable lines of management reporting that suit your business? While one customer will need weekly or monthly management meetings, with regular reports, another may require an in-plant team on site to ensure consistency of service. Both businesses need to work together to achieve an ongoing partnership.

### **Relationship**

'Chemistry' between two teams can make or break a relationship. Ensuring the key manager from the 3PL is working for 'you' as much as for 'them' is an important consideration. Often it's about the cultural fit between you and your 3PL – is communication open and honest? A good 3PL will be careful to get the balance right when it comes to ensuring the contract is profitable for them, while putting the investment into your business as a long-term partnership.

Equally, if a customer takes too combative an approach to contract negotiation and nails down the 3PL too much, it won't be able to make a profit and won't want to go that extra mile that can often make the difference to a commercial relationship.

To prevent the possibility of the relationship between a business and its 3PL becoming stale it is important to revisit and review on a regular basis. It may be that your current 3PL is offering world-class service, but unless you measure them against like-for-like competitors, you will never know.